

1. Practical financial monitoring - your responsibilities

Trustees' responsibilities: Financial management is the responsibility of the board of trustees. The responsibility for appointing people to manage your money (the treasurer, the bookkeeper, the finance manager, your accountant) also rests with the board. The trustees are responsible for the information and the instructions these people are given to carry out their work. If things go wrong, the committee will have to carry the can. Most trustees know this, but it can be extraordinarily difficult to translate concern into suitably responsible practice.

Financial monitoring: Above all, the trustees are responsible for ensuring that:

- the organisation's money is secure
- all movements of money are properly recorded
- the organisation has and will continue to have the resources it needs to do its job.

Monitoring is a systematic means of achieving this. It is not a dead-end bureaucratic process, because the reports which are used by the trustees to monitor the *effectiveness of your financial systems and controls* are also essential for making *informed financial decisions* at policy and operational levels. You cannot control your organisation if you do not understand how it works.

Where monitoring fits in: A number of people have important roles in different parts of your arrangements for managing your money:

- day-to-day records will be kept by at least one employee or volunteer, the administrator or bookkeeper, who
 - keeps the basic financial records of money received, money spent, bills received,
 - looks after the banking of money and withdrawals from the bank
 - administers the petty cash system, if you have one
 - pays the staff's salaries and wages and keeps payroll records
- financial reports and plans may be prepared by the chief executive or manager or treasurer, who will put the raw financial information into a meaningful and understandable format – ie into balance sheets, income and expenditure accounts, budgets and budget reports
- monitoring – the trustees and the chief executive/manager will use these reports to *understand* the organisation better, ie to
 - assess the financial position of the organisation
 - guide them when making policy and spending decisions
 - help them look for any danger signs
 - pinpoint any defects in the way the records are kept and money is looked after.

The same people who monitor the financial reports will also be responsible for physical monitoring checks, ie ensuring that:

- the record books system or computer programme is being used correctly
- security arrangements to protect cash, cheques, purchasing etc are running correctly.

Understandable language: A key part of understanding your organisation is the accounting language which you use. This will vary greatly according to the experience and interests of the trustees. But there can be little doubt that very many boards of trustees cannot, and have no serious wish to, speak "accountantese", the obscure language used by accountants.

So boards need a version of accounting language which they feel comfortable with and which does not turn half of them off when they pick up the monthly financial report. This requires support and training for trustees. But it also means that you should encourage your financial advisors to speak to you in language which most of you can easily understand, if they do not do so already.

2. Practical financial monitoring - how *NOT* to do it

Financial monitoring can produce a variety of negative attitudes among trustees and staff alike. It is as well to be aware of these before you start because lack of co-operation or understanding can wreck even the best system.

“Why bother with financial monitoring?” Some trustees see financial monitoring as a necessary chore, rather than a real job with a point. For the cynical, here are a few practical reasons for being serious about monitoring:

- if your organisation fails because the trustees did not keep proper control of its financial affairs you can be held personally liable for the losses. If you don't monitor regularly you cannot possibly be keeping proper control
- a busy but poorly monitored organisation can slump from apparent viability to insolvency in just a few months; this means that you can kill off your organisation with perhaps just a couple of board meetings where the chief executive or the treasurer present excuses rather than financial reports
- most chief executive officers and treasurers are scrupulously honest and competent enough at financial management for their charities to be 100 per cent safe in their hands without the board of trustees ever coming near them; but how do you know that this is the case in your organisation without monitoring?
- why would you all work so hard to set up and run your organisation, only to turn your back on it when it might need you most?

“If we don't have it, we can raise it”: Some committee members may be completely uninterested in good financial management. They are easy to recognise because, when you are considering the loss of a major grant cut, they suggest running a jumble sale. They are usually well-meaning and may be immeasurably valuable to the organisation in other capacities – which is their real danger, because it seems unkind to shut them up. You need to organise a training session without delay.

“Don't bother us”: There are many understandable reasons why individual trustees, or the board as a whole, may fail to monitor a project's finances properly. It helps to recognise them:

- “no one showed us how” – which is a training issue
- “we are too busy with other things” – a question of your group's priorities
- “we don't want to”, ie we are prepared to work hard as a volunteer on almost anything, as long as it is interesting, and finances are not – an issue of recruiting additional trustees perhaps
- “we can't” – it is realistic to work on the assumption that perhaps as many as half the members of any group can never be trained, cajoled or bullied into taking a serious and *active* role in monitoring the monthly financial reports.

“I have my reasons”:

- hiding a lack of skills: volunteers and paid staff are sometimes unwilling to admit they do not have the necessary skills, and they cover up by making excuses; you need to be aware of this and explain to people that it's nothing to be ashamed of; regular appraisals of paid staff should be geared to detect whether this is a problem
- hiding the truth: another much less common reason for producing inadequate financial reports is dishonesty; the merest suspicion of dishonesty can be so severely damaging to an organisation, whether or not it is justified, that *the board of trustees must remove any grounds for suspicion by insisting that full and open reports are presented to them every month.*

“We're committed to monitoring, but we're not very good at it” Here are some of the commoner mistakes made by groups which know they should monitor, but still can't get it right.

- no financial report is produced this month because
 - you cannot find a reliable treasurer (you have not given the issue the right priority)
 - your manager or treasurer were too busy (they probably got their priorities wrong)
 - you are all too polite to ask
- the wrong information – small voluntary groups often have a fixation with monthly income and expenditure accounts, with the result that they never look at a balance sheet to check the health of their organisation
- irrelevant information – if you *tell* the committee the cost of the office toilet rolls rather than the costs of providing a your services then that's exactly what they will discuss
- too much information – it is extremely common for an eager (or manipulative) managers to provide so much information that the trustees cannot sift out what is relevant and important, so you need to decide clearly what you need to know.

3. Practical financial monitoring - the basics

What financial information do you need?

The very basics: The following items aren't optional:

- a bank account
- accounts books or a computer programme for recording all financial transactions, income and expenditure and monthly totals
- someone to keep the cash book up to date and to prepare financial reports
- a realistic budget which shows you have sufficient income to cover expected spending
- a monthly meeting (the full board of trustees or a finance subcommittee or both)
- the "Financial Report" as an obligatory agenda item at that meeting
- a written financial report available to all members present in advance.

Ask the right questions: Information is no use if you don't know what you want to use it for. Here are the main issues you should be looking at when you discuss the financial report:

- What is your organisation's current position?
 - how much money have you got which is immediately available for you to use?
 - how solvent are you? ie if you stopped operating today would the organisation be able to pay all its debts
 - is your organisation getting richer or poorer?
 - what do you owe that you must pay soon (eg PAYE, your staff and your suppliers)?
 - do you need to reserve any of the money you have for any special purposes?
- Are you in control?
 - what money is owed to you, who owes it?
 - are you expecting grant payments?
 - how are you going to ensure you receive what you are owed?
 - will you be able to continue operating in the coming weeks and months?
 - what efforts are you making to attract or sustain new and existing sources of income?
- How well are you managing your finances?
 - are you viable? ie are you paying out more or less than you are spending each month?
 - are you keeping within your agreed budget?
 - are you spending money wisely?

Financial reports

The aim: Committees need financial information which:

- contains things they need to know
- they can read quickly
- they can learn to understand
- they can question.

The essential monthly financial report: The recommended financial report for small groups consists of three parts

- a **"simplified balance sheet"** at the end of each month showing the "current assets" – that is the amount of money you would have if you added the bank balance to the total money owed to you less the money you owe (unpaid invoices, wage and other things you are already committed to paying for) – so that you know how much the organisation is *actually worth*
- a **budget report** comparing your budget with a summary of your actual income and expenditure to date, so that you can see whether your spending is on course
- a **Treasurer's Report**, preferably in writing, but a verbal report if this is not possible explaining what the balance sheet and budget report are saying.

4. Practical financial monitoring – a simplified “balance sheet”

ANWHERE COMMUNITY GROUP

Simplified Balance Sheet at (end of month)

ASSETS		
Current account bank balance	£	
Deposit account bank balance	£	
Petty cash	£	
Cash in hand (waiting to be banked)	£	
Money owed to the group	£	
	debtor 1	£
	debtor 2	£
	debtor 3 etc	£
Guaranteed grant payments overdue	£	
Other assets	£	
Total assets		£A
LIABILITIES		
Owed by the Trust to creditors		
	creditor 1	£
	creditor 2	£
	creditor 3 etc	£
Inland Revenue payment due	£	
Payments (eg grants) received in advance	£	
Loans to be repaid	£	
Other liabilities	£	
Total		£B
Net Current Assets		£A-B

Example format for a simplified "balance sheet"

5. Practical financial monitoring - general guidance

Don't mention the toilet rolls: Many people who are in other respects coherent, intelligent and responsible human beings suddenly cannot cope when they see columns of figures! One common way which trustees use to disguise their inadequacy is to switch the conversation to something more tangible, such as the cost of toilet rolls. If you fail to bring this into the open you might *only* talk about the toilet rolls, or the stationery, or the coffee, and forget about important financial matters altogether.

Minimising the terror: The reporting system recommended here is intended to minimise your members' fear of figures. But you can go further by:

- highlighting relevant details very clearly
- attaching simple, brief explanatory notes which interpret the figures
- including the occasional graph to make the information more accessible (eg a line or bar graph of the "net current asset" figures for the past year)
- providing brief clear written reports to accompany the figures.

Don't be afraid to be dumb: Trustees have a right to ask dumb questions about the accounts. People are often afraid to ask the obvious, but the answers can be enlightening for everyone.

Ask difficult questions: This is monitoring after all, so any question which might help you and your colleagues to get closer to understanding the real performance of the organisation is entirely legitimate. If the information is not readily available or you are not satisfied with the answer you get, there are plenty of ways forward – a private discussion later with the manager or treasurer, a report to the next meeting, or a look at the financial records yourself. It's your right as a trustee. (But you shouldn't deliberately try to trip up your officers.)

Be open-minded and supportive: This is your opportunity to support, not to undermine your officers. Most managers welcome any serious interest in the accounts by the trustees because it means they can share their concerns and their successes. You certainly need to get suspicious if you discover there is a reluctance to divulge information. But even then you should be extremely careful about indicating any distrust, and most particularly about any challenge to the integrity of an employee or volunteer. The relationship will never recover.

Don't take precipitous action: Large numbers of suggestions for improvements in the running of the organisation will stem from discussions of the financial reports. That is part of the value of the process. But you should be extremely careful about leaping, for instance, from discussing a problem highlighted by balance sheet to instructing your manager or chair directly on how to run the operation. The manager is probably much more familiar with the financial situation than the trustees are, and radical new policies may be inappropriate. If major changes seem to be needed you should make sure they are properly investigated and evaluated, or at another meeting, before you take irreversible action.

Set up a finance committee: The disadvantage of handing over monitoring to a finance subcommittee is that other members of the main board of trustees or board may never get a chance to contribute. It is also quite possible to end up with futile duplicate discussions in the two groups if the meetings are poorly chaired. But a small finance sub committee with properly defined terms of reference can be useful for supporting the staff, carrying out checks in a non-threatening way, and coping with the otherwise distracting minor details. The main board or committee can then receive abbreviated reports and reserve their detailed involvement for issues such as setting the annual budget and policy discussions with large spending implications.

6. Practical financial monitoring – internal financial regulations

Standards for good financial practice: It is vital that the trustees set standards for good financial practice, and ensure that there are clear directions and procedures for dealing with financial affairs. These “internal regulations” should be appropriate to the size of your organisation and should not be over bureaucratic. If you have appointed an independent examiner or auditor, they may be able to help you decide what measures are suitable for your organisation. In general, trustees should ensure that internal financial regulations include:

- details of who is responsible for each aspect of maintaining financial records and preparing reports
- the delegation of responsibilities for financial matters to paid staff, volunteers subcommittees and outsiders
- procedures for preparing and approving financial plans and budgets
- the banking arrangements
- the payment of staff
- policies and procedures for purchasing goods and services
- procedures for authorising expenditure on behalf of the organisation
- a detailed description of the duties and responsibilities of the treasurer
- procedures for controlling, opening, listing and distributing incoming post where money is received in this way
- procedures for authorising and controlling activities concerned with raising or generating funds by or on behalf of the organisation.

The board should review these regulations from time to time to ensure that they are in keeping with the changing needs of the organisation.

Safeguards: It is also important to clarify procedures to ensure the security of your funds and to protect individuals who handle them:

- a minimum of two people should be present whenever money is handled (eg when emptying collection tins, counting takings after a jumble sale)
- all money received should be banked gross
- never make payments out of money received
- keep a cash float for all small payments, replenishing this from the bank account not from cash receipts
- no one should have authority for both ordering goods and for authorising the purchase of those goods
- no one should be able to authorise any payments to be made to themselves, eg wages and expenses claims.